

# ECOWEEK

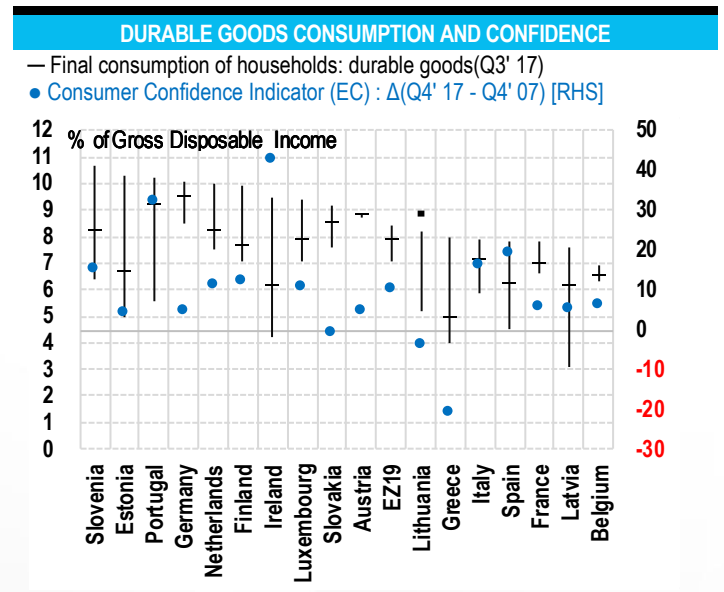
No. 18-14, 6 April 2018

## Eurozone: pent-up consumption, sign of hope or concern?

- In most eurozone countries, durable goods consumption in relation to income is still below the previous cyclical peak
- Consumer confidence tends to be higher than the previous peak ■ This combination suggests there is pent-up consumer demand but it could also reflect lingering households' concerns about the lasting nature of the current robust growth.

Last week's editorial analysed whether the case can be made in favour of pent-up business investment. What about consumer spending? Mario Draghi argued on 14 March that "there are signs of pent-up demand for both consumption and investment that still needs to be satisfied" adding that essential consumption (food and rents) was 9% above the pre-crisis level whereas non-essential consumption (e.g. electrical goods, holidays) was only 2% higher.

Household spending depends, amongst other factors, on income so it is relevant to take this into account when assessing whether there is pent-up consumer demand, in particular in terms of non-essential spending. The chart looks at durable consumption as a percentage of gross disposable income. The vertical lines show the pre-crisis peak and subsequent trough whereas the horizontal marker shows the ratio for Q3 2017, the most recent data. Whereas the numbers for Austria have been remarkably stable, many others have seen a huge peak to trough contraction. In the vast majority of countries, current durable consumption in relation to income is still well below the previous high. Durable goods spending also depends on household confidence. In this respect, the dots represent the difference between confidence in Q4 2017 versus Q4 2007. With the exception of Slovakia, Lithuania and in particular Greece, confidence is higher now than in 2007. Nevertheless, durable goods spending in relation to income is still quite a bit below the previous peak. This would indicate that there is still pent-up consumer demand in the eurozone as a whole and very much so in a number of individual countries. This bodes well for the growth outlook. An alternative interpretation is less positive: it could also mean that households are not yet convinced that robust growth will continue.



Source: Thomson Reuters, European Commission, BNP Paribas

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